



**OFFICE OF AUDITOR OF STATE
STATE OF IOWA**

State Capitol Building
Des Moines, Iowa 50319-0004

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Rob Sand
Auditor of State

NEWS RELEASE

FOR RELEASE

June 28, 2019

Contact: Marlys Gaston
515/281-5834

Auditor of State Rob Sand today released an agreed-upon procedures report on the Leon, Iowa for the period July 1, 2017 through June 30, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa.

Sand recommended the City review its control procedures to obtain maximum internal control possible and establish procedures to reconcile utility billings, collections and delinquent accounts. The City should also amend the budget in accordance with Chapter 384.18 of the Code of Iowa before disbursements are allowed to exceed the budget. In addition, the City should ensure bank reconciliations are completed monthly and are independently reviewed.

A copy of the agreed-upon procedures report is available for review on the Auditor of State's web site at <https://auditor.iowa.gov/reports/audit-reports/>.

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CITY OF LEON
AUDITOR OF STATE'S INDEPENDENT REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2017 THROUGH JUNE 30, 2018

City of Leon



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Rob Sand
Auditor of State

June 14, 2019

Officials of the City of Leon
Leon, Iowa

Dear Honorable Mayor and Members of the City Council:

I am pleased to submit to you the agreed-upon procedures report for the City of Leon, Iowa, for the year ended June 30, 2018. The agreed-upon procedures engagement was performed pursuant to Chapter 11.6 of the Code of Iowa and in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards.

I appreciate the cooperation and courtesy extended by the officials and employees of the City of Leon throughout the agreed-upon procedures engagement. If I or this office can be of any further assistance, please contact me or Marlys Gaston of my staff at 515-281-5834.

Sincerely,

A handwritten signature in black ink, appearing to read "Rob Sand".

Rob Sand
Auditor of State

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City of Leon

Officials

(Before January 2018)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------|--------------------|----------------------|
| Allen Simmonds | Mayor | Jan 2020 |
| Joe Stephens | Mayor Pro-Tem | Jan 2020 |
| Troy Armstrong | Council Member | (Resigned Sept 2017) |
| Jon Erb (Appointed Oct 2017) | Council Member | Nov 2018 |
| Elmer Easton | Council Member | Jan 2018 |
| Sue Kelly | Council Member | Jan 2018 |
| Darlene Fuller | Council Member | Jan 2020 |
| Denise Simmons | City Administrator | Indefinite |
| Hugh Cain | Attorney | Indefinite |

(After January 2018)

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------------------------|--------------------|---------------------|
| Allen Simmonds | Mayor | Jan 2020 |
| Joe Stephens | Mayor Pro-Tem | (Resigned Mar 2018) |
| Jon Erb | Mayor Pro-Tem | Jan 2022 |
| Darlene Fuller | Council Member | Jan 2020 |
| Jessica Hill (Appointed Apr 2018) | Council Member | Nov 2019 |
| Keith Hinds | Council Member | Jan 2022 |
| Sue Kelly | Council Member | Jan 2022 |
| Denise Simmons | City Administrator | Indefinite |
| Hugh Cain | Attorney | Indefinite |

City of Leon



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Auditor of State's Independent Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and Members of the City Council:

We performed the procedures below, which were established at Iowa Code Chapter 11.6 to provide oversight of Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Leon for the period July 1, 2017 through June 30, 2018, including procedures related to the City's compliance with certain Code of Iowa requirements identified below. The City of Leon's management, which agreed to the performance of the procedures performed, is responsible for compliance with these requirements and for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below, either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2018 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.
8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.


9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the recommended COA.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed transfers between funds for propriety, proper authorization and accurate accounting.
13. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
14. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of non-compliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on specific accounting records and related information of the City, including compliance with specific Code of Iowa requirements. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

The purpose of this report is to report, in accordance with Chapter 11.6 of the Code of Iowa, certain agreed-upon procedures and the resulting recommendations pertaining to selected accounting records and related information of the City, including the City's compliance with certain Code of Iowa requirements. This report is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Leon during the course of our agreed-upon procedures engagement. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


Marlys K. Gaston, CPA
Deputy Auditor of State

June 14, 2019

Detailed Recommendations

City of Leon

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (A) Segregation of Duties – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements. Generally, one individual has control over each of the following areas for the City:

- (1) Cash – handling, reconciling and recording.
- (2) Long-term Debt – recordkeeping, compliance and cash functions.
- (3) Receipts – opening mail, collecting, depositing, recording, reconciling and posting.
- (4) Disbursements – purchasing, invoice processing, check writing, check signing, mailing, reconciling and recording.
- (5) Journal entries – preparing and recording.
- (6) Payroll – recordkeeping, preparing and distributing.
- (7) Utilities – billing, collecting, depositing and posting.
- (8) Financial reporting – preparing and reconciling.

Recommendation – We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations should be documented by the signature or initials of the reviewer and the date of the review.

- (B) Bank Reconciliations – The cash balances in the City's general ledger were reconciled to bank account balances throughout the year. However, an independent review of the bank reconciliations is not performed.

Recommendation – An independent person should review the City's bank reconciliations and document the review by signing or initialing and dating the monthly reconciliations.

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Although the City's utility software generates a monthly reconciliation of utility billings, collections and delinquent accounts, the amounts in the reconciliation are not compared to supporting records. In addition, the monthly reconciliations are not reviewed by an independent person.

Recommendation – The City should ensure all amounts in the reconciliations of utility billings, collections and delinquent accounts are properly supported. The City Council or other independent person designated by the City Council should review the reconciliations and document the review by signing or initialing and dating the reconciliation and monitor delinquent accounts.

City of Leon

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- (D) Transfers – Approval of transfers by the City Council is done as part of the consent agenda and the transfer details, including amount to be transferred, are not included in the City Council meeting minutes.

Recommendation – The City Council approval of interfund transfers should be documented in the minutes record, including the funds impacted, the transfer amount, the date and an explanation of the transfer.

- (E) Certified Budget – Disbursements during the year ended June 30, 2018 exceeded the amounts budgeted in the community and economic development and general government functions prior to the budget amendment. Disbursements at year end exceeded the amounts budgeted in the public safety and general government functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

- (F) Questionable Disbursements – Three mileage claims reimbursed by the City totaling \$316 were not supported by information stating the destination and purpose of the trip.

Recommendation – All mileage claims should be properly supported and include information regarding the purpose of travel, destination, dates of travel, and other relevant information before the disbursement is approved and paid.

- (G) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City did not receive an image of the back of each cancelled check during the fiscal year ended June 30, 2018.

Recommendation – The City should obtain and retain images of both the front and back of cancelled checks for all bank accounts as required by Chapter 554D.114 of the Code of Iowa.

- (H) Disaster Recovery Plan – The City has not adopted a written disaster recovery plan. Lack of a disaster recovery plan could result in the City’s inability to function in the event of a disaster or continue business without interruption. A disaster recovery plan for financial continuity should include the following:

- Identification of critical applications.
- Identification of steps for recovery of any operating systems for City operations.
- Identification of computer equipment needed for temporary processing.
- Identification of business location(s) which could be used to process critical applications in the event of an emergency, including any applicable written agreements for the use of the locations.

City of Leon

Detailed Recommendations

For the period July 1, 2017 through June 30, 2018

- Requirement to keep a copy of the disaster recovery plan off site.
- Requirement to keep system backups current and off site.
- An inventory of all hardware and components.
- An inventory of all software applications.
- A requirement that copies of all user documentation and policy and procedures manuals be located off site.
- A requirement for extra stock of paper supplies, such as checks, warrants, purchase orders, etc., be located off site.
- Requirement outlining the frequency of testing the disaster recovery plan to identify issues and document the results of testing.

Recommendation – A written disaster recovery plan should be developed.

- (I) Revenue Bonds and Notes – The City has established a short lived asset account, but has not been contributing to it annually as required by the sewer revenue note resolution.

Recommendation – The City should contribute the required amount as stated in the sewer revenue note resolution to the short lived asset account.

City of Leon

Staff

This engagement was performed by:

Marlys K. Gaston, CPA, Deputy
Gwen D. Fangman, CPA, Manager
Sarah Nissen, Staff Auditor
Nicci Tucker, Staff Auditor